

# BREAKING THE ACQUISITION PARADIGM: CECOM ACQUISITION CENTER PILOTS ARMY'S E-AUCTIONS

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## Introduction

The widening public use of the Internet combined with the proliferation of new Web-based electronic commerce (e-commerce) tools and search capabilities provides consumers instant access to an unlimited marketplace. These same tools and search capabilities also provide the government an opportunity to improve purchasing techniques and reform acquisition processes. With recent revisions to the Federal Acquisition Regulation, the government is now able to reap the benefits of these new tools and the efficiencies of scale provided by the new business environment. In particular, to take greater advantage of this environment, the U.S. Army Communications-Electronics Command (CECOM) Acquisition Center sought to expand the use of its Interagency Business Opportunities Page (IBOP). To accomplish this, CECOM established an Electronic Reverse Auctioning Project Team (ERAPT).

ERAPT's mission is to assess the available software solutions and, where necessary, adapt them for use as state-of-the-art tools for online purchases of sup-

plies and services for the CECOM Acquisition Center's worldwide customers.

ERAPT, which consists of a number of cross-functional experts, began its assessment by seeking an industry partner to pursue a "best-of-breed" commercial solution that could meet its goals. During a period of several weeks, ERAPT evaluated a number of advanced decision-support environments that could expand the use and increase the efficiency of the CECOM IBOP. Compatibility with the IBOP and integration into the Army's Single Face to Industry initiative was deemed critical to the success of this effort.

ERAPT sought a tool that would not only result in a pronounced reduction in acquisition lead times but would also result in the acquisition of a best-valued product, rather than simply a lowest-priced product. To this end, the decision-support environment had to be evaluated on intangibles such as speed of delivery, vendor past performance, warranty period, and other factors determined by the contracting officer, in addition to price.

## Software Solutions

After assessing approximately 50 possible commercial solutions, ERAPT engaged Frictionless Commerce Inc. and Moai Technologies, whose software applications promised the "best-fit" solution for the government. Representatives of the CECOM Acquisition Center met and conferred with Frictionless Commerce and Moai Technologies representatives during a period of several weeks.

Frictionless Commerce's PurchaseSource™ and Moai's LiveExchange™ software applications were tailored to meet CECOM's specific needs and then combined to produce a new tool for auctioning. The resultant tool leverages advanced search, comparison and selection technologies, and leading-edge e-commerce functionality to meet CECOM's goals. The tool consists of four distinct components that are available for use by the Army acquisition community. These components are outlined as follows:

- "Spidering" Tool. This tool is based on cutting-edge technology developed at the Massachusetts Institute of Technology Media Laboratory in Cambridge, MA. Essentially, this tool allows Army users to post their required product on the IBOP and identify any "best-value" criteria and performance requirements. When the SEARCH button is clicked, the tool searches Web- and General Services Administration (GSA)-based e-catalogues for products with the same name. The tool then "pulls in" product descriptions and comparison charts. Users can then purchase the product using a credit card or by issuing a contract, as appropriate.

- "Reverse Auction" Tool. This tool allows Army users to post their required product and a "beginning price" on the IBOP. Then, prospective sellers offer their best prices and, as other sellers post their best prices, sellers are induced to reduce their original prices, thus defining the name reverse auction. This tool also permits a variety of auction types such as "Dutch auctions," where Army users post their required product and a "drop-dead"

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delivery date on the IBOP. Then, prospective sellers offer their best delivery dates and, as other sellers post their best delivery dates, sellers are permitted to proffer improved delivery terms. This option is particularly useful in acquiring raw materials or perishable goods where timely delivery to the troops is critical.

- Forward Auction Tool "A." This tool works in essentially the same fashion as the reverse auction tool. However, it allows Army users to search ongoing nationwide auctions so they may benefit from national economies of scale.

- Forward Auction Tool "B." This tool also works in essentially the same fashion as the reverse auction tool. However, it allows Army depots and program managers to dispose of surplus supplies.

### **Pilot Tests**

To date, ERAPT has conducted a number of pilot tests of the new auctioning tool. The first test was conducted May 17, 2000. The initial offering of one Ricoh Secure Fax System, TEMAIR Edgar Utilities software, toner, and ancillary items opened with a beginning price of \$6,891. When the offering closed, the winning competitor offered the Ricoh model to the government for a unit price of \$5,511, which is \$1,380 less than the beginning price!

The second test, conducted May 19, 2000, was witnessed by Dr. Kenneth J. Oscar, Deputy Assistant Secretary of the Army (Procurement), and attended by representatives from Frictionless Commerce and Moai Technologies. This offer-

ing for two IBM notebook computers (or equivalents) opened with a price of \$7,000 each. When the competition closed, the winning competitor offered the Armada E5000 (the IBM equivalent) for \$3,280 each. This price is \$3,730 lower than the beginning price—a reduction of more than 50 percent!

ERAPT and its industry partners continued working to enhance the capability of this new tool so that it could be used for acquisition of military-unique supplies and services. Another pilot to test the enhanced capability was conducted July 25, 2000, for a large number of connector plugs (NSN 5935-01-236-3117), a critical spare part of the Patriot Missile system. Connectec of Colorado and Autodyne of New York participated in this competition, which opened with a price of \$1,180 and represented the government estimate based on recent acquisition history. The auction was vigorous and lasted for nearly 2 hours. In the end, Autodyne offered a price of \$780 each, approximately 33.9 percent lower than the beginning price!

On Aug. 3, 2000, representatives of ERAPT traveled to the Military District of Washington to demonstrate the new reverse auctioning tool. Air Force, Navy, and NASA representatives, as well as personnel from the Office of the Assistant Secretary of the Army for Acquisition, Logistics and Technology, witnessed the demonstration. Three separate auctions were conducted, all in support of the Air Combat Command, Langley Air Force Base, VA. Participation in the auctions

was limited to GSA schedule holders who have demonstrated compliance with Air Force Chief Information Officer mandates.

### **Conclusion**

Electronic reverse auctioning is a significant departure from the static and inflexible process currently used by the government to solicit purchase bids. It offers the potential to save time and money while allowing the government buyer to select items based on their functions, features, and capabilities rather than just their price. Based on initial feedback, industry will also be a beneficiary of this new tool. For example, General Motors, which uses a similar approach, reports that it has cut the cost of processing an order from \$100 to \$10. Other industry representatives also feel that the process is more equitable because it is "out in the open," thus obviating a long-held industry perception that an existing GSA schedule or other government-wide contract vehicle predetermines the selection.

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